

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6992**

**BILL NUMBER:** HB 1319

**NOTE PREPARED:** Jan 11, 2015

**BILL AMENDED:**

**SUBJECT:** Acquisition of Distressed Utilities.

**FIRST AUTHOR:** Rep. Koch

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
☐ **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides that the Indiana Utility Regulatory Commission (IURC) may allow a utility company that acquires certain water or wastewater utilities to include any cost differential in the utility company's rate base.

**Effective Date:** July 1, 2015.

**Explanation of State Expenditures:** *Summary* - This bill provides that a utility company may petition the IURC in an independent proceeding to approve a petition to include the cost differential in their rate base when they acquire property from another utility company. Any increase in expenditures to the IURC would be offset by public utility fees.

**Additional Information** - The operating budget of the IURC is funded by regulated utilities operating in Indiana. The IURC determines the rate at which to bill the utilities based on the agency's budget, less reversions, divided by the total amount of gross intrastate operating revenue received by the regulated utilities for the previous fiscal year. Based on this formula, utilities are currently billed approximately 0.12% of their gross intrastate operating revenues.

**Explanation of State Revenues:** *Summary* - This bill provides that a utility company may petition the IURC to approve a petition to include the cost differential in their rate base when they acquire property from another utility company. The cost differential would be amortized over a reasonable time with corresponding reductions in the rate base. To the extent that utility rates increase initially as a result of this bill and the determinations made by the IURC in proceedings, there could be an increase in Utility Receipts Tax (URT),

Utility Services Use Tax (USUT), and Sales Tax collections. The amount of any increase is indeterminable and will depend on determinations made by the IURC in the independent proceedings.

**Additional Information** - The rate for both the URT and USUT is 1.4%. The URT is calculated on the gross receipts of all entities providing the retail sale of utility services in Indiana. The USUT is imposed on the retail consumption of utility services in Indiana. Both the URT and USUT are deposited in the state General Fund. Sales tax revenue is deposited in the state General Fund (98.848%), the Motor Vehicle Highway Account (1%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%).

Cost differential is defined in the bill as the difference between the cost of utility property when put into service minus applicable accrued depreciation. The bill provides that the IURC may approve petitions if they find that the rates charged by the utility company before acquiring the property will not increase unreasonably as a result of the acquisition. Approvals may be made prior to acquisition if the utility company provides notices of the proposed acquisition and any changes in rates or charges to customers of the distressed utility. The bill provides that if the IURC determines that all or part of the cost differential included in the rate base is unreasonable, the IURC shall remove the cost differential from the rate base and order refunds of the excess revenue, plus interest to the utility company's customers.

The IURC has the authority to adjust a utility's rate of return as part of their general rate-making authority. The utility would still have the obligation to provide sufficient evidence in the record to warrant an increase to the rate of return.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** The bill's definition of utility company includes municipally owned water or wastewater utilities and regional sewer or water districts. The provisions in this bill could impact the rates and charges of these utilities.

Also, if utility rates increase as a result of this bill and determinations made by the IURC in independent proceedings, there could also be an increase in local revenues to the extent that a local unit receives distributions from sales tax revenue.

**State Agencies Affected:** Indiana Utility Regulatory Commission.

**Local Agencies Affected:** Municipally owned water or wastewater utilities; Regional sewer or water districts.

**Information Sources:** Andrew Mapes, Indiana Utility Regulatory Commission.

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